

**REPORT OF THE AUDIT OF THE
ESTILL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2015**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Wallace Taylor, Estill County Judge/Executive

Members of the Estill County Fiscal Court

The enclosed report prepared by Teddy Michael Prater, CPA, PLLC, presents the financial statement of Estill County, Kentucky, for the year ended June 30, 2015.

We engaged Teddy Michael Prater, CPA, PLLC, to perform the audit of this financial statement. We worked closely with the firm during our report review process; Teddy Michael Prater, CPA, PLLC, evaluated Estill County, Kentucky's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT OF THE
ESTILL COUNTY FISCAL COURT

June 30, 2015

Teddy Michael Prater CPA, PLLC has completed the audit of the Estill County Fiscal Court for fiscal year ended June 30, 2015.

We have issued an unmodified opinion, based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Estill County Fiscal Court. In accordance with OMB Circular A-133, we have issued an unmodified opinion on the compliance requirements that are applicable to Estill County's major federal program: Chemical Stockpile Emergency Preparedness Program (CFDA #97.040).

Financial Condition:

The Estill County Fiscal Court had total receipts of \$5,978,170, borrowed money of \$200,580, and disbursements of \$6,117,128 in fiscal year 2015. This resulted in a total ending fund balance of \$439,231, which is an increase of \$61,622 from the prior year.

Report Comments:

- 2015-001 The County Should Pay Invoices Within 30 Working Days
- 2015-002 The Fiscal Court Should Approve Annually A Salary Schedule
- 2015-003 The County Should Repay Operating Loans By June 30
- 2015-004 The Jailer Should Deposit All Funds Daily
- 2015-005 Excess Restricted Road Funds Of \$78,648 Were Transferred To The General Fund, Increasing To \$85,557 The Liability Owed From The General Fund To The Road Fund
- 2015-006 The Fiscal Court Had Actual Disbursements In Excess Of Budgeted Disbursements
- 2015-007 The Jailer Lacks Adequate Segregation Of Duties Over The Accounting Functions Of The Jail Commissary Fund

Deposits:

The fiscal court deposits were insured and collateralized by bank securities or bonds.

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Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Estill County Fiscal Court, for the year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Estill County Fiscal Court's financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *Audit Guide for Fiscal Court Audits* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described more fully in Note 1 of the financial statement, the financial statement is prepared by Estill County Fiscal Court on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Estill County Fiscal Court as of June 30, 2015, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Estill County Fiscal Court as of June 30, 2015, and their respective cash receipts and disbursements, and budgetary results for the year then ended, in accordance with the basis of accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Estill County Fiscal Court. The budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards, as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws.

The accompanying budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules, capital asset schedule, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statement as a whole.

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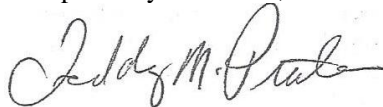
Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2016 on our consideration of Estill County Fiscal Court's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Estill County Fiscal Court's internal control over financial reporting and compliance.

Based on the results of our audit, we present the accompanying schedule of findings and questioned costs included herein, which discusses the following report comments:

- 2015-001 The County Should Pay Invoices Within 30 Working Days
- 2015-002 The Fiscal Court Should Approve Annually A Salary Schedule
- 2015-003 The County Should Repay Operating Loans By June 30
- 2015-004 The Jailer Should Deposit All Funds Daily
- 2015-005 Excess Restricted Road Funds Of \$78,648 Were Transferred To The General Fund, Increasing To \$85,557 The Liability Owed From The General Fund To The Road Fund
- 2015-006 The Fiscal Court Had Actual Disbursements In Excess Of Budgeted Disbursements
- 2015-007 The Jailer Lacks Adequate Segregation Of Duties Over The Accounting Functions Of The Jail Commissary Fund

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

February 23, 2016

ESTILL COUNTY OFFICIALS

For The Year Ended June 30, 2015

Fiscal Court Members:

Wallace Taylor	County Judge/Executive
Darrell Johnson	Magistrate
Gerald Rader	Magistrate
Gerry Flannery	Magistrate

Other Elected Officials:

Rodney Davis	County Attorney
Bo Morris	Jailer
Sherry Fox	County Clerk
Stephanie Brinegar	Circuit Court Clerk
Gary Freeman	Sheriff
Jeff Hix	Property Valuation Administrator
Tony Murphy	Coroner

Appointed Personnel:

Teresa Sparks	Deputy County Judge/Executive
Laura Ann Rogers	County Treasurer
Laura Ann Rogers	Occupational Tax Collector
Christine Brandenburg	Finance Officer

ESTILL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2015

ESTILL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2015

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,694,272	\$	\$
In Lieu Tax Payments	6,171	13,714	
Excess Fees	119,604		
Licenses and Permits	11,735		
Intergovernmental	165,391	1,278,118	79,362
Charges for Services	284,784	182,578	9,550
Miscellaneous	341,406	24,171	871
Interest	2,700	2,044	22
Total Receipts	<u>2,626,063</u>	<u>1,500,625</u>	<u>89,805</u>
DISBURSEMENTS			
General Government	690,159		
Protection to Persons and Property	375,071		925,752
General Health and Sanitation	86,049		
Social Services	164,187		
Recreation and Culture	363		
Roads		945,982	
Debt Service	72,531	46,657	13,859
Capital Projects		49,723	
Administration	659,583	220,008	175,242
Total Disbursements	<u>2,047,943</u>	<u>1,262,370</u>	<u>1,114,853</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>578,120</u>	<u>238,255</u>	<u>(1,025,048)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds	338,000	97,162	1,010,350
Transfers To Other Funds	(1,107,512)	(283,000)	
Borrowed Money	200,580		
Total Other Adjustments to Cash (Uses)	<u>(568,932)</u>	<u>(185,838)</u>	<u>1,010,350</u>
Net Change in Fund Balance	9,188	52,417	(14,698)
Fund Balance - Beginning (Restated)	44,339	42,590	31,440
Fund Balance - Ending	<u>\$ 53,527</u>	<u>\$ 95,007</u>	<u>\$ 16,742</u>
Composition of Fund Balance			
Bank Balance	\$ 58,191	\$ 92,730	\$ 44,054
Add: Deposits In Transit	16,217	12,256	
Less: Outstanding Checks	(20,881)	(9,979)	(27,312)
Fund Balance - Ending	<u>\$ 53,527</u>	<u>\$ 95,007</u>	<u>\$ 16,742</u>

The accompanying notes are an integral part of the financial statement.

ESTILL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

Budgeted Funds						
Local Government Economic Assistance Fund	State Grants Fund	Emergency Services Communication Fund	Search and Rescue Fund	CSEPP Fund	911/CMRS Fund	Homeland Security Grant Fund
\$ 8,655	\$	\$	\$	\$	\$	\$
22,269	32,354			1,467,838		
	1,800	30,910			104,732	
	20,068			5,556		
5		213				
30,929	54,222	31,123		1,473,394	104,732	
17,183						
11,024	26,800	854		1,447,601	9,021	
500	10,187					
5,692	10,628					
850				94,789		
35,249	47,615	854		1,542,390	9,021	
(4,320)	6,607	30,269		(68,996)	95,711	
					(55,000)	
					(55,000)	
(4,320)	6,607	30,269		(68,996)	40,711	
4,767	14,045	43,895		122,721	54,431	
\$ 447	\$ 20,652	\$ 74,164	\$ 0	\$ 53,725	\$ 95,142	\$ 0
\$ 5,906	\$ 21,092	\$ 74,164	\$	\$ 72,332	\$ 103,905	\$
(5,459)	(440)			(18,607)	(8,763)	
\$ 447	\$ 20,652	\$ 74,164	\$ 0	\$ 53,725	\$ 95,142	\$ 0

The accompanying notes are an integral part of the financial statement.

ESTILL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

	Budgeted Funds		
	Planning and Preparedness Fund	Emergency Management Fund	Citizens Emergency Response Fund
RECEIPTS			
Taxes	\$	\$	\$
In Lieu Tax Payments			
Excess Fees			
Licenses and Permits			
Intergovernmental		18,535	
Charges for Services			
Miscellaneous			
Interest			
Total Receipts		18,535	
DISBURSEMENTS			
General Government			
Protection to Persons and Property		14,404	
General Health and Sanitation			
Social Services			
Recreation and Culture			
Roads			
Debt Service			
Capital Projects			
Administration			
Total Disbursements		14,404	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		4,131	
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			
Transfers To Other Funds			
Borrowed Money			
Total Other Adjustments to Cash (Uses)			
Net Change in Fund Balance		4,131	
Fund Balance - Beginning (Restated)	2,500	3,426	3,821
Fund Balance - Ending	\$ 2,500	\$ 7,557	\$ 3,821
Composition of Fund Balance			
Bank Balance	\$ 2,500	\$ 7,557	\$ 3,821
Add: Deposits In Transit			
Less: Outstanding Checks			
Fund Balance - Ending	\$ 2,500	\$ 7,557	\$ 3,821

The accompanying notes are an integral part of the financial statement.

ESTILL COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2015
(Continued)

<u>Unbudgeted Fund</u>	
<u>Jail Canteen Fund</u>	<u>Total Funds</u>
\$	\$ 1,702,927
	19,885
	119,604
	11,735
	3,063,867
	614,354
48,742	440,814
	4,984
<u>48,742</u>	<u>5,978,170</u>
	707,342
	2,810,527
	96,736
	164,187
42,429	59,112
	945,982
	133,047
	49,723
	1,150,472
<u>42,429</u>	<u>6,117,128</u>
<u>6,313</u>	<u>(138,958)</u>
	1,445,512
	(1,445,512)
	200,580
	200,580
6,313	61,622
9,634	377,609
<u>\$ 15,947</u>	<u>\$ 439,231</u>
\$ 16,130	\$ 502,382
987	29,460
(1,170)	(92,611)
<u>\$ 15,947</u>	<u>\$ 439,231</u>

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2015

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Estill County includes all budgeted and unbudgeted funds under the control of the Estill County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities, private purpose trust funds and internal service funds that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck license distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund (LGEA) - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

State Grants Fund - The primary purpose of this fund is to account for state grants. The primary source of receipts for this fund is state grants.

Emergency Services Communication Fund - The primary purpose of this fund is to account for surcharges received from the emergency management communication tower. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Search and Rescue Fund - The primary purpose of this fund is to account for emergency equipment disbursements of the county. The primary sources of receipts for this fund are federal and state grants.

Chemical Stockpile Emergency Preparedness Program (CSEPP) Fund - The primary purpose of this fund is to account for federal CSEPP grant monies, which is the only source of receipts for this fund. Estill County is part of a ten county region in Kentucky that receives federal grant monies to mitigate disasters associated with the Bluegrass Army Depot's chemical stockpile located in neighboring Madison County. The Department for Local Government and the federal government require the fiscal court to maintain these receipts and disbursements separately from the General Fund.

911/CMRS Fund - The primary purpose of this fund is to account for the surcharge taxes for Commercial Mobile Radio Systems (CMRS). The state distributes CMRS monies to counties to supplement 911 operations. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Homeland Security Grant Fund - The primary purpose of this fund is to account for Homeland Security grant monies, which is the only source of receipts for this fund.

Planning and Preparedness Fund - The primary purpose of this fund is to account for state grants used for planning and preparedness for disasters and emergencies in the county.

Emergency Management Fund - The primary purpose of this fund is to account for emergency management grant monies, which is the only source of receipts for this fund.

Citizens Emergency Response Fund - The primary purpose of this fund is to account for grant monies associated with the Central Kentucky Emergency Response Team to help protect the citizens of Estill County.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Unbudgeted Funds

The fiscal court reports the following unbudgeted fund:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of this fund.

E. Estill County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Estill County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Estill County Fiscal Court.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the fiscal court's deposits may not be returned. The fiscal court does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2015, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2015.

	General Fund	Road Fund	911/CMRS Fund	Total Transfers In
General Fund	\$	\$ 283,000	\$ 55,000	\$ 338,000
Road Fund	97,162			97,162
Jail Fund	1,010,350			1,010,350
Total Transfers Out	<u>\$ 1,107,512</u>	<u>\$ 283,000</u>	<u>\$ 55,000</u>	<u>\$ 1,445,512</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Interfund Receivables and Liabilities

The table below reflects fund balances after accounting for receivables and liabilities that are not included on the financial statement prepared in accordance with the regulatory basis of accounting.

	General Fund	Road Fund
Fund Balance - Ending	\$ 53,527	\$ 95,007
Interfund Receivables/Liabilities	<u>(85,557)</u>	<u>85,557</u>
Fund Balance - Ending	<u>\$ (32,030)</u>	<u>\$ 180,564</u>

Note 5. Long-term Debt

A. Financing Obligation - Refinancing

On December 31, 2004, Estill County entered into an \$825,000 lease agreement with Kentucky Association of Counties. The purpose of this lease was to retire a portion of the County's outstanding debt and requires monthly principal and interest payments. As of June 30, 2015, principal outstanding was \$101,215. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 58,395	\$ 4,416
2017	<u>42,820</u>	<u>1,286</u>
Totals	<u>\$ 101,215</u>	<u>\$ 5,702</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

B. Financing Obligation – Refinance of Short-term Debt

On August 11, 2012, Estill County entered into an \$87,529 bank note with Citizens Guaranty Bank. The purpose of the note was to pay off the short term debt that was needed to cover payroll and other operating expenses on July 11, 2011. This is a three year note, which requires 2 annual principal payments of \$10,000 each and 2 annual interest payments at 6%, with the remaining balance due on August 11, 2015. As of June 30, 2015, principal outstanding was \$67,529. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 67,529	\$ 4,052
Totals	<u>\$ 67,529</u>	<u>\$ 4,052</u>

C. Financing Obligation – Road Equipment

On November 22, 2013, Estill County entered into a \$97,933 lease agreement with GE Capital Transportation Finance for the purchase of an International truck. This is a five year lease, which requires yearly principal and interest payments. As of June 30, 2015, principal outstanding was \$58,761. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 18,871	\$ 2,204
2017	19,578	1,496
2018	<u>20,312</u>	<u>761</u>
Totals	<u>\$ 58,761</u>	<u>\$ 4,461</u>

D. Financing Obligation – Borrowed Money

On May 7, 2015, Estill County borrowed \$200,580 from the Citizens Guaranty Bank for operating purposes. The loan calls for 24 monthly principal and interest payments of \$8,801, beginning on June 7, 2015, with the final payment due on May 7, 2017. As of June 30, 2015, principal outstanding was \$192,631. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2016	\$ 98,196	\$ 7,416
2017	<u>94,435</u>	<u>2,376</u>
Totals	<u>\$ 192,631</u>	<u>\$ 9,792</u>

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 5. Long-term Debt (Continued)

E. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 13,435	\$	\$ 13,435	\$	\$
Financing Obligations	324,812	200,580	105,256	420,136	242,991
Total Long-term Debt	<u>\$ 338,247</u>	<u>\$ 200,580</u>	<u>\$ 118,691</u>	<u>\$ 420,136</u>	<u>\$ 242,991</u>

Note 6. Employee Retirement System

A. Plan Description

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan that covers all eligible regular full-time members employed in non-hazardous positions in the county. The Plan provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 17.67 percent.

In accordance with Senate Bill 2, signed by the Governor on April 4, 2013, plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Members contribute five percent (nonhazardous) of their annual creditable compensation and one percent to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. A member's account is credited with a four percent (nonhazardous) employer pay credit. The employer pay credit represents a portion of the employer contribution.

The county's contribution for FY 2013 was \$414,776, FY 2014 was \$289,931, and FY 2015 was \$315,006.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (member's age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 6. Employee Retirement System (Continued)

CERS also provides post-retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

The Kentucky Retirement Systems issues a publicly available annual financial report that includes financial statements and required supplementary information on CERS. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

B. Net Pension Liability

As promulgated by GASB Statement No. 68 the total pension liability for CERS was determined by an actuarial valuation as of June 30, 2014. The total net pension liability for all employers participating in CERS was determined by an actuarial valuation as of June 30, 2014, measured as of the same date and is as follows: non-hazardous \$3,244,377,000 and hazardous \$1,201,825,000, for a total net pension liability of \$4,446,202,000 as of June 30, 2014. Based on these requirements, Estill County's proportionate share of the net pension liability as of June 30, 2015 is:

	<u>June 30, 2014</u>	<u>June 30, 2014</u>
Hazardous	\$	\$
Non-Hazardous	<u>2,699,000</u>	<u>2,386,000</u>
Totals	<u>\$ 2,699,000</u>	<u>\$ 2,386,000</u>

The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kyret.ky.gov or can be obtained as described in the paragraph above.

ESTILL COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2015
(Continued)

Note 7. Deferred Compensation

On February 24, 2000, the Estill County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 8. Insurance

For the fiscal year ended June 30, 2015, Estill County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Prior Period Adjustment

The General Fund beginning balance was restated by \$500 due to a deposit error on June 30, 2014 and corrected in August 2014.

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ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,475,231	\$ 1,475,231	\$ 1,694,272	\$ 219,041
In Lieu Tax Payments	500	6,171	6,171	
Excess Fees		119,604	119,604	
Licenses and Permits	14,250	14,250	11,735	(2,515)
Intergovernmental	146,229	201,715	165,391	(36,324)
Charges for Services	292,610	298,218	284,784	(13,434)
Miscellaneous	453,989	454,489	341,406	(113,083)
Interest	4,100	4,100	2,700	(1,400)
Total Receipts	2,386,909	2,573,778	2,626,063	52,285
DISBURSEMENTS				
General Government	711,984	769,399	690,159	79,240
Protection to Persons and Property	670,134	422,624	375,071	47,553
General Health and Sanitation	65,450	99,053	86,049	13,004
Social Services	141,900	171,026	164,187	6,839
Recreation and Culture		370	363	7
Debt Service	56,500	72,532	72,531	1
Administration	648,214	501,863	659,583	(157,720)
Total Disbursements	2,294,182	2,036,867	2,047,943	(11,076)
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	92,727	536,911	578,120	41,209
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	107,190	107,190	338,000	230,810
Transfers To Other Funds	(256,417)	(256,417)	(1,107,512)	(851,095)
Borrowed Money			200,580	200,580
Total Other Adjustments to Cash (Uses)	(149,227)	(149,227)	(568,932)	(419,705)
Net Change in Fund Balance	(56,500)	387,684	9,188	(378,496)
Fund Balance Beginning (Restated)	56,500	56,500	44,339	(12,161)
Fund Balance - Ending	\$ 0	\$ 444,184	\$ 53,527	\$ (390,657)

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
In Lieu Tax Payments	\$ 17,000	\$ 17,000	\$ 13,714	\$ (3,286)
Intergovernmental	1,475,788	1,475,788	1,278,118	(197,670)
Charges for Services	350,000	350,000	182,578	(167,422)
Miscellaneous	4,000	6,223	24,171	17,948
Interest	100	100	2,044	1,944
Total Receipts	1,846,888	1,849,111	1,500,625	(348,486)
DISBURSEMENTS				
Roads	1,124,600	1,286,418	945,982	340,436
Debt Service	87,500	87,500	46,657	40,843
Capital Projects	300,000	281,000	49,723	231,277
Administration	401,147	260,552	220,008	40,544
Total Disbursements	1,913,247	1,915,470	1,262,370	653,100
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(66,359)	(66,359)	238,255	304,614
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	107,190	107,190	97,162	(10,028)
Transfers To Other Funds	(107,190)	(107,190)	(283,000)	(175,810)
Total Other Adjustments to Cash (Uses)			(185,838)	(185,838)
Net Change in Fund Balance	(66,359)	(66,359)	52,417	118,776
Fund Balance Beginning	66,359	66,359	42,590	(23,769)
Fund Balance - Ending	\$ 0	\$ 0	\$ 95,007	\$ 95,007

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 367,500	\$ 367,500	\$	\$ (367,500)
Intergovernmental	119,559	119,559	79,362	(40,197)
Charges for Services	39,500	39,500	9,550	(29,950)
Miscellaneous	4,800	4,800	871	(3,929)
Interest	50	50	22	(28)
Total Receipts	531,409	531,409	89,805	(441,604)
DISBURSEMENTS				
Protection to Persons and Property	522,807	935,970	925,752	10,218
Debt Service	14,029	14,830	13,859	971
Administration	144,800	205,460	175,242	30,218
Total Disbursements	681,636	1,156,260	1,114,853	41,407
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(150,227)	(624,851)	(1,025,048)	(400,197)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	149,227	149,227	1,010,350	861,123
Total Other Adjustments to Cash (Uses)	149,227	149,227	1,010,350	861,123
Net Change in Fund Balance	(1,000)	(475,624)	(14,698)	460,926
Fund Balance Beginning	1,000	31,440	31,440	
Fund Balance - Ending	\$ 0	\$ (444,184)	\$ 16,742	\$ 460,926

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 7,500	\$ 7,500	\$ 8,655	\$ 1,155
Intergovernmental	138,450	138,450	22,269	(116,181)
Interest	50	50	5	(45)
Total Receipts	146,000	146,000	30,929	(115,071)
DISBURSEMENTS				
General Government	12,500	17,183	17,183	
Protection to Persons and Property	33,500	35,917	11,024	24,893
General Health and Sanitation	3,000	1,200	500	700
Social Services	11,500	11,500		11,500
Recreation and Culture	85,000	85,000	5,692	79,308
Roads	10,000	4,700		4,700
Administration	3,000	3,000	850	2,150
Total Disbursements	158,500	158,500	35,249	123,251
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(12,500)	(12,500)	(4,320)	8,180
Net Change in Fund Balance	(12,500)	(12,500)	(4,320)	8,180
Fund Balance Beginning	12,500	12,500	4,767	(7,733)
Fund Balance - Ending	\$ 0	\$ 0	\$ 447	\$ 447

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

STATE GRANTS FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 90,000	\$ 90,000	\$ 32,354	\$ (57,646)
Charges for Services	5,000	5,000	1,800	(3,200)
Miscellaneous	35,500	35,500	20,068	(15,432)
Total Receipts	130,500	130,500	54,222	(76,278)
DISBURSEMENTS				
Protection to Persons and Property	21,000	27,800	26,800	1,000
General Health and Sanitation	35,000	35,000	10,187	24,813
Recreation and Culture	42,000	42,000	10,628	31,372
Capital Projects	12,000	12,000		12,000
Administration	20,500	27,745		27,745
Total Disbursements	130,500	144,545	47,615	96,930
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(14,045)	6,607	20,652
Net Change in Fund Balance		(14,045)	6,607	20,652
Fund Balance Beginning		14,045	14,045	
Fund Balance - Ending	\$ 0	\$ 0	\$ 20,652	\$ 20,652

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

EMERGENCY SERVICES COMMUNICATION FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 15,000	\$ 15,000	\$ 30,910	\$ 15,910
Interest	50	50	213	163
Total Receipts	15,050	15,050	31,123	16,073
DISBURSEMENTS				
Protection to Persons and Property	35,000	35,000	854	34,146
Administration	10,050	23,945		23,945
Total Disbursements	45,050	58,945	854	58,091
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(30,000)	(43,895)	30,269	74,164
Net Change in Fund Balance	(30,000)	(43,895)	30,269	74,164
Fund Balance Beginning	30,000	43,895	43,895	
Fund Balance - Ending	\$ 0	\$ 0	\$ 74,164	\$ 74,164

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

SEARCH AND RESCUE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,000	\$ 1,000	\$	\$ (1,000)
Total Receipts	1,000	1,000		(1,000)
DISBURSEMENTS				
Protection to Persons and Property	1,000	1,000		1,000
Administration	1,000	1,000		1,000
Total Disbursements	2,000	2,000		2,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(1,000)	(1,000)		1,000
Net Change in Fund Balance	(1,000)	(1,000)		1,000
Fund Balance Beginning	1,000	1,000		(1,000)
Fund Balance - Ending	\$ 0	\$ 0	\$ 0	\$ 0

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

CSEPP FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 1,994,025	\$ 1,994,025	\$ 1,467,838	\$ (526,187)
Miscellaneous			5,556	5,556
Total Receipts	<u>1,994,025</u>	<u>1,994,025</u>	<u>1,473,394</u>	<u>(520,631)</u>
DISBURSEMENTS				
Protection to Persons and Property	3,153,631	3,220,228	1,447,601	1,772,627
Administration	175,755	109,158	94,789	14,369
Total Disbursements	<u>3,329,386</u>	<u>3,329,386</u>	<u>1,542,390</u>	<u>1,786,996</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(1,335,361)</u>	<u>(1,335,361)</u>	<u>(68,996)</u>	<u>1,266,365</u>
Net Change in Fund Balance	(1,335,361)	(1,335,361)	(68,996)	1,266,365
Fund Balance Beginning	<u>1,335,361</u>	<u>1,335,361</u>	<u>122,721</u>	<u>(1,212,640)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 53,725</u>	<u>\$ 53,725</u>

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

911/CMRS FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Charges for Services	\$ 122,620	\$ 122,620	\$ 104,732	\$ (17,888)
Total Receipts	122,620	122,620	104,732	(17,888)
DISBURSEMENTS				
Protection to Persons and Property	129,500	129,500	9,021	120,479
Administration	68,120	68,120		68,120
Total Disbursements	197,620	197,620	9,021	188,599
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(75,000)	(75,000)	95,711	170,711
Other Adjustments to Cash (Uses)				
Transfers To Other Funds			(55,000)	(55,000)
Total Other Adjustments to Cash (Uses)			(55,000)	(55,000)
Net Change in Fund Balance	(75,000)	(75,000)	40,711	115,711
Fund Balance Beginning	75,000	75,000	54,431	(20,569)
Fund Balance - Ending	\$ 0	\$ 0	\$ 95,142	\$ 95,142

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

HOMELAND SECURITY GRANT FUND					
		Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
RECEIPTS					
Intergovernmental		\$ 10,000	\$ 10,000	\$	\$ (10,000)
Total Receipts		10,000	10,000		(10,000)
DISBURSEMENTS					
Protection to Persons and Property		10,000	10,000		10,000
Total Disbursements		10,000	10,000		10,000
Net Change in Fund Balance					
Fund Balance Beginning					
Fund Balance - Ending					
		\$ 0	\$ 0	\$ 0	\$ 0

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

PLANNING AND PREPAREDNESS FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,500	\$ 2,500	\$	\$ (2,500)
Total Receipts	2,500	2,500		(2,500)
DISBURSEMENTS				
Protection to Persons and Property	2,500	5,000		5,000
Total Disbursements	2,500	5,000		5,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(2,500)		2,500
Net Change in Fund Balance		(2,500)		2,500
Fund Balance Beginning		2,500	2,500	
Fund Balance - Ending	\$ 0	\$ 0	\$ 2,500	\$ 2,500

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

EMERGENCY MANAGEMENT FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 6,500	\$ 6,500	\$ 18,535	\$ 12,035
Total Receipts	6,500	6,500	18,535	12,035
DISBURSEMENTS				
Protection to Persons and Property	6,500	14,404	14,404	
Total Disbursements	6,500	14,404	14,404	
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(7,904)	4,131	12,035
Other Adjustments to Cash (Uses)				
Transfers To Other Funds				
Total Other Adjustments to Cash (Uses)				
Net Change in Fund Balance		(7,904)	4,131	12,035
Fund Balance Beginning		3,426	3,426	
Fund Balance - Ending	\$ 0	\$ (4,478)	\$ 7,557	\$ 12,035

ESTILL COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015
(Continued)

CITIZENS EMERGENCY RESPONSE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Charges for Services	\$ 1,000	\$ 1,000	\$	\$ (1,000)
Total Receipts	1,000	1,000		(1,000)
DISBURSEMENTS				
Protection to Persons and Property	5,000	5,000		5,000
Total Disbursements	5,000	5,000		5,000
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(4,000)	(4,000)		4,000
Net Change in Fund Balance	(4,000)	(4,000)		4,000
Fund Balance Beginning	4,000	4,000	3,821	(179)
Fund Balance - Ending	\$ 0	\$ 0	\$ 3,821	\$ 3,821

ESTILL COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION – BUDGETARY COMPARISON SCHEDULES

June 30, 2015

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

ESTILL COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2015

ESTILL COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2015

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land and Land Improvements	\$ 575,000	\$	\$	\$ 575,000
Construction In Progress	105,979	41,368		147,347
Buildings	5,422,126	285,270		5,707,396
Equipment	3,719,245	501,297		4,220,542
Vehicles	1,538,247			1,538,247
Infrastructure	5,102,430	55,066		5,157,496
 Total Capital Assets	 <u>\$ 16,463,027</u>	 <u>\$ 883,001</u>	 <u>\$</u>	 <u>\$17,346,028</u>

ESTILL COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION – SCHEDULE OF CAPITAL ASSETS

June 30, 2015

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Equipment	\$ 10,000	3-25
Vehicles	\$ 10,000	5-10
Infrastructure	\$ 20,000	10-50

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ESTILL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2015

Federal Grantor Program Title Grant Name (CFDA #)	Pass-Through Grantor's Number	Expenditures
Cash Programs:		
<u>U.S. Department of Homeland Security</u>		
Passed Through Kentucky Department of Military Affairs:		
Chemical Stockpile Emergency Preparedness Program (CFDA 97.040)	EMA - 2015 - CA - 5570	\$ 1,542,390 *
Emergency Management Performance Grant (CFDA 97.042)	Not Available	<u>27,867</u>
Total Cash Expenditures of Federal Awards		<u>\$ 1,570,257</u>

* Tested as a major program.

ESTILL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Estill County Fiscal Court and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Note 2 - Determination of Major Program

The Type A program for the fiscal court is any program for which total expenditures of federal awards exceed \$300,000 for fiscal year 2015 or were deemed high risk. There was one Type A program. The major program tested was:

- Chemical Stockpile Emergency Preparedness Program (CFDA #97.040)

Note 3 - Noncash Expenditures

There were no noncash expenditures of federal awards for fiscal year 2015.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

TEDDY MICHAEL PRATER CPA, PLLC
HC 62 Box 291
Salyersville, KY 41465
Telephone (606) 349-8042

The Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Estill County Fiscal Court for the fiscal year ended June 30, 2015, and the related notes to the financial statement which collectively comprise the Estill County Fiscal Court's financial statement and have issued our report thereon dated February 23, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Estill County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Estill County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Estill County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-007 to be a material weakness.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Estill County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, and 2015-006.

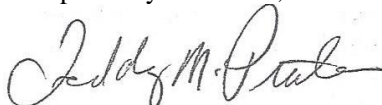
County Judge/Executive's Response to Findings

The Estill County Judge/Executive's and Jailer's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County Judge/Executive's and Jailer's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Teddy M. Prater", is written over a faint, circular official stamp.

Teddy Michael Prater CPA, PLLC

February 23, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

TEDDY MICHAEL PRATER CPA, PLLC
HC 62 Box 291
Salyersville, KY 41465
Telephone (606) 349-8042

The Honorable Wallace Taylor, Estill County Judge/Executive
Members of the Estill County Fiscal Court

**Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133**

Independent Auditor's Report

Report on Compliance for Each Major Federal Program

We have audited Estill County Fiscal Court's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of Estill County Fiscal Court's major federal programs for the year ended June 30, 2015. Estill County Fiscal Court's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Estill County Fiscal Court's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Estill County Fiscal Court's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Estill County Fiscal Court's compliance with those requirements.

Report On Compliance For Each Major Federal Program
And Report On Internal Control Over Compliance
In Accordance With OMB Circular A-133
(Continued)

Opinion on Each Major Federal Program

In our opinion, Estill County Fiscal Court complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

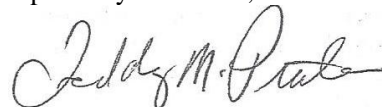
Management of Estill County Fiscal Court is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Estill County Fiscal Court's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Estill County Fiscal Court's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Teddy Michael Prater CPA, PLLC

February 23, 2016

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Year Ended June 30, 2015

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2015

Section I: Summary of Auditor's Results

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Are any material weaknesses identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Is any noncompliance material to financial statements noted?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

Are any material weaknesses identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are any significant deficiencies identified not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported
Are any audit findings disclosed that are required to be reported in accordance with <u>U.S. Office of Management and Budget Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations, Section .510(a)</u> ?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Identification of major programs:

CFDA Numbers and Name of Federal Program or Cluster

CFDA #97.040 Chemical Stockpile Emergency Preparedness Program
--

Enter the dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000
Is the auditee qualified as a low-risk auditee?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit

State Laws And Regulations

2015-001 The County Should Pay Invoices Within 30 Working Days

During the course of our audit, we found 18 invoices totaling \$343,057 that were not paid within 30 working days. KRS 65.140(2) states that all bills for goods or services shall be paid within thirty (30) working days of receipt of vendor's invoice except when payment is delayed because the purchasers have made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. It continues to state that if a payment of invoices exceeds 30 days, a one percent interest penalty should be added. We recommend that the county comply with KRS 65.140, by paying invoices within 30 working days and avoiding penalties/finance charges.

County Judge/Executive Wallace Taylor's Response: Revenue reimbursement from state.

2015-002 The Fiscal Court Should Approve Annually A Salary Schedule

The fiscal court did not approve and set the salaries for county employees. KRS 64.530 states the fiscal court of each county shall fix the reasonable compensation of every county officer and employee. We recommend the county list all employees and each salary or hourly pay rate. The county should also include the starting pay rates for entry-level positions. The county should revise this list as increases in pay are approved by the fiscal court.

County Judge/Executive Wallace Taylor's Response: CSEPP and Road are complete. In process of implementing all other departments.

2015-003 The County Should Repay Operating Loans By June 30

On May 7, 2015, the county borrowed \$200,580 for the stated purpose of leasing vehicles, however the money was placed in the General Fund and used for operating purposes. Since these funds were not used for leasing per KRS 65.946 definition of leasing personal property but rather for operating purposes, then these funds should have been repaid by June 30, 2015. KRS 65.7707 states this type of debt "shall mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued." Using this definition, the funds should have been repaid by June 30, 2015, however the maturity date per the amortization schedule is May 7, 2017. The General Fund had a cash balance of \$53,527 as of June 30, 2015, which was insufficient to repay the \$192,631 balance of the operating loan as required by statute.

County Judge/Executive Wallace Taylor's Response: Based upon lease agreement with local bank and approved by DLG.

2015-004 The Jailer Should Deposit All Funds Daily

We found that the receipts collected at the Jail were not being deposited on a daily basis. Daily deposits are required by the minimum accounting and reporting standards as prescribed by the State Local Finance Officer pursuant to KRS 68.210. Deposits were made at the Jailer's discretion during the fiscal year. The Jail receives a significant amount of cash receipts. Due to the high risk associated with cash, it is crucial that the Jailer make daily deposits. We recommend the Jailer deposit funds on a daily basis.

County Jailer Bo Morris' Response: Noted.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section II: Findings - Financial Statement Audit (Continued)

State Laws And Regulations (Continued)

2015-005 Excess Restricted Road Funds Of \$78,648 Were Transferred To The General Fund, Increasing To \$85,557 The Liability Owed From The General Fund To The Road Fund

Road funds can only be spent on roads, except for the amount approved by Department for Local Government on the Road Cost Allocation Worksheet. During the year, we determined the Road Fund transferred an excess of \$78,648 to the General Fund, increasing to \$85,557 the liability owed from the General Fund to the Road Fund. Under the regulatory basis of accounting, fund balances are not adjusted for the unpaid liability on the financial statement, however the liability is still owed. We recommend the General Fund liability be paid as money becomes available.

We will refer this to the Kentucky Transportation Cabinet.

County Judge/Executive Wallace Taylor's Response: Upon review of the allocation worksheet, it appears that not all allowable expenses were used in determining the actual percentage rate for transfers.

2015-006 The Fiscal Court Had Actual Disbursements In Excess Of Budgeted Disbursements

The Fiscal Court had actual disbursements in excess of budgeted disbursements which is in violation of KRS 68.300. The General Fund disbursements exceeded the budget by \$11,076. We recommend that the Fiscal Court limit disbursements to the budgeted amount.

County Judge/Executive Wallace Taylor's Response: Noted.

Internal Control - Material Weakness

2015-007 The Jailer Lacks Adequate Segregation Of Duties Over The Accounting Functions Of The Jail Commissary Fund

A lack of segregation of duties exists over the accounting function at the jail. The Jailer receives cash from the inmates for release fees and commissary purchases. He makes the deposits and remits inmate fees to the County Treasurer. He makes all payments from the commissary fund, as he is the only check signer. Segregation of duties over accounting functions, such as the ones mentioned above, or implementation of compensating controls when limited by the number of staff is essential for providing protection from asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. When faced with a limited number of staff, strong compensating controls should be in place to offset the lack of segregation of duties. If compensating controls are implemented, they should be documented by initialing the supporting documentation reviewed. Implementation of the following procedures could strengthen controls at the jail.

- An independent person should agree daily deposits to receipts issued, daily checkout sheets, and the receipts ledger.
- An independent person should reconcile the bank account to the receipts and disbursements ledgers.
- An independent person should compare invoices to payments.

County Jailer Bo Morris' Response: In process of training personnel to handle bank issues.

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

ESTILL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2015
(Continued)

Section III: Findings And Questioned Costs - Major Federal Awards Program Audit

None.

Section IV: Summary Schedule of Prior Audit Findings (FEDERAL FINDINGS ONLY)

None.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

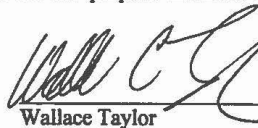
ESTILL COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2015**

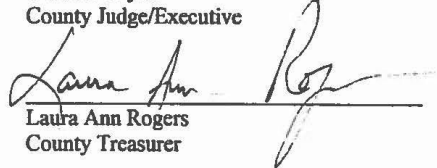
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ESTILL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2015

The Estill County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Wallace Taylor
County Judge/Executive



Laura Ann Rogers
County Treasurer

